

## **Paying for technology in the outpatient PPS**

**ISSUE:** Should Medicare change the method used to pay for technology in hospital outpatient departments (HOPDs)? Services provided in HOPDs are paid under the outpatient PPS. The PPS pays pre-determined base payment rates adjusted for regional differences in input prices for most services. The PPS also makes additional pass-through payments for some drugs, biologicals, and devices (technology) because the data CMS used to calibrate base rates did not adequately reflect their costs. The pass-through system has favorable qualities, such as facilitating incorporation of new technologies into outpatient procedures. But, the current mechanism has the potential to overpay for pass-through technology, which later distorts relative payment rates in favor of services that use pass-through items. We have developed a draft recommendation that addresses these problems.

**KEY POINTS:** To the extent they occur, overpayments for devices happen for a different reason than overpayments for drugs and biologicals because the payment mechanism is different for each group. Pass-through payments for devices are based on the product of hospital charges and hospital-specific cost-to-charge ratios. This gives hospitals incentive to increase payments by raising charges. Pass-through payments for drugs and biologicals are based on average wholesale price (AWP). Research indicates AWP's typically exceed hospitals' acquisition costs by a wide margin.

Because of this difference in payment mechanisms, our draft recommendation separately addresses payments for devices and those for drugs and biologicals.

**ACTION:** This analysis of paying for technology in HOPDs will be a chapter in the March 2002 report. Commissioners need to make a final decision on the draft recommendation. Staff also seek feedback on the content and tone of the text.

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